

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7535
BILL NUMBER: SB 509

DATE PREPARED: Mar 16, 1999
BILL AMENDED:

SUBJECT: Income tax personal exemptions.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(91,700,000)	(220,000,000)
State Expenditures			
Net Increase (Decrease)		(91,700,000)	(220,000,000)

Summary of Legislation: This bill provides individuals an exemption to the adjusted gross income tax equal to the amount of the exemption claimed by the individual under the Internal Revenue Code. (Current law provides an exemption of \$1,000.)

Effective Date: January 1, 2000.

Explanation of State Expenditures: The Department of Revenue will have administrative expenses associated with annually updating tax forms, instructions and computer programs to adjust for the new exemption amounts. These expenses will come from their existing budget.

Explanation of State Revenues: (Revised) This bill increases the amount of personal exemptions for a taxpayer and their spouse which is currently set at \$1,000 to be equivalent to the amount allowed by the Internal Revenue Service. This exemption amount will increase annually based on the changes in the federal exemption which is also adjusted yearly by the Consumer Price Index (CPI). The 1998 federal exemption is \$2,700.

Based on the Internal Revenue Service and the Indiana Department of Revenue Individual Income Tax statistics, there were 3.5 M federal exemptions claimed in 1995 for taxpayers and spouses. The statistics also

show these federal exemptions have been increasing at a rate of less than 1% annually.

Increasing the personal exemptions from \$1,000 to an estimated \$2,850 (adjusted for inflation) for tax years beginning January 1, 2000 would reduce individual income tax revenue by an estimated **\$91.7 M in FY 2000** (due to five months of withholdings) and **\$220 M in FY 2001**. The reduction in revenue will continue to increase as the exemption amounts are adjusted by the Consumer Price Index. The calendar year CPI has ranged from 2.29% to 3% for the last five years.

Individual income tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax would experience an indeterminable decrease in revenue collections due to the increase in the personal exemptions.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Department of Revenue 1995, 1996 Individual Income Tax Statistics; Internal Revenue Service.